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INTRODUCTORY NOTE TO "PROPOSALS FOR THE ESTABLISHMENT OF SUB-REGIONAL INTER-GOVERNMENTAL MACHINERY FOR ECONOMIC INTEGRATION IN EAST AFRICA"

(Note by the secretariat)

M65-730

INTRODUCTORY NOTE

1. The paper entitled "Proposals for the Establishment of Sub-Regional Inter-Governmental Machinery for Economic Integration in East Africa" (Document E/CN.14/LU/ECOP/8) was presented for the Sub-Regional Meeting on Economic Co-operation, held in Lusaka from the 26th October till 2nd November 1965.

2. Document E/CN.14/346, E/CN.14/LU/ECOP/12 contains the resolutions that were passed by the countries represented at Lusaka in response to the proposals contained in the above document and in the industry studies presented to the Conference.

3. These Reports are submitted to the present Conference as a model of the sort of inter-governmental arrangements that can be made to facilitate industrial harmonization and other aspects of economic co-operation in Africa. The proposals for institutional arrangements were only drawn up after consultation with the Governments of the Sub-region. Proposals submitted for the decision of Governments in other Sub-regions will necessarily have to reflect the wishes of those governments as far as they can be ascertained.

4. Inter-governmental consultation such as is proposed for the East African Sub-region can facilitate the process of industrialization at all stages. At the pre-investment stage, Africa and other developing areas which have not got their own planning and consultancy personnel tend to be at the mercy of feasibility and project reports drawn up by interested parties, directed towards preconceived methods of production and sources of supply of equipment, and priced in accordance with the interests of the sellers of equipment. These defects in project preparation are inevitably reflected in high costs, or low quality of the product, or, more frequently, both.

5. It is a useful discipline that such feasibility studies should be subjected to the examination of other partners in a system of economic co-operation whose interest lies in ensuring reasonable prices and good

quality products for their own people as consumers, rather than in getting the industry established for the purposes of creating income and employment.

6. Mistakes in programming the various interlocking aspects of industrial projects, especially in constructing ancilliary facilities, also tend to be quite frequent in countries to which industrialization is a novel process. Inter-governmental consultations at the pre-investment stage should allow countries which are sponsoring projects to make concrete arrangements for the actual movement and trading of the products of the enterprise, especially for the construction of the physical means of transport, usually requiring longer periods of implementation than the productive enterprises themselves; for the supply of power, water and drainage; and for the training of personnel. All these aspects of industrial development should become increasingly better programmed as a result of inter-governmental consultation and scrutiny by partners with varying interests.

7. The corollary of ensuring suitable and economical techniques of production, reasonable prices for equipment, and tolerable financial arrangements through more thorough work at the pre-investment stage should be that the degree of protection needed to ensure the viability of productive enterprises is correspondingly reduced. The experiences of other regions suggest that in the rush towards industrialization in Africa the excessive use of protectionist devices would create long-term problems which, owing to the vested interests inevitably built up in the process, are particularly difficult to correct. The influence of potential consumer countries in the preparation of an industrial project should particularly ensure that protection is used to support an infant industry but does not become a permanent feature of Africa's industrial economies, keeping up prices and the cost of living and blunting incentives to technological progress.

8. Although this question has yet to be faced by the African Governments in detail, it should be presumed that the joint participation of a group of countries in the arrangement of financing for industrial projects should cheapen the cost of external capital and, perhaps even more important,

make its other terms, such as repayment periods, less onerous. On the other hand; capital-exporting countries, which are faced with demands for capital assistance inevitably far in excess of the available supply, should find in the inter-governmental institutions a forum for the indentification of priorities. Conversely, the degree of irrationality in the deployment of such assistance, often due to short-term political factors, should be minimized. The effectiveness of foreign capital flowing into the industrial development of Africa should also be greatly improved by the market advantages which sub-regional co-operation offers. In particular, as far as private capital investment is concerned, the element of risk which makes the cost of capital to Africa so high, should be considerably reduced.

9. Questions of the choice of location are of course of the essence of industrial harmonization. Experience suggests that technically optimum choices of location, however these are defined, cannot most of the time be expected. But a system of multi-national co-operation in which the views of consumers and producers, and the aspiration of each country to some degree of industrialization, are all balanced through a process of continuous consultation should serve as a means of minimizing the extent of the departures from optimum solutions.

10. It is also already apparent that the reconciliation of the rival interests of different African countries in the field of industrial development is to be found through a programme of sequential development of the elements in a unified sub-regional industry rather than through the permanent allocation of any given industry to one area to the exclusion of all others. The process of joint long-range planning which is implicit in sub-regional industrial harmonization should serve to make this obvious to the planning authorities in each participating country. Decisions which, if taken in isolation, would lead to the construction of surplus capacity at the wrong times can then be taken in the light of reliable information on the supply and demand situation for the products of an industry in an identifiable market. Conversely, national industrial planning which is now often confined to an unsuitably short planning period, and sometimes influenced by blind and random choices, should by this means become a more rational process.

11. One of the sources of tension in any arrangement for economic co-operation is the inequalities in the conditions under which firms work in the different countries; inequalities which arise inevitably with the changes in taxation, company law, etc., made by each country from time to time. If these conditions are allowed to diverge too radically, then the conflicts will tend to undermine the system of co-operation itself. Consequently, inter-governmental consultation has an important role to play in securing the resolution of these tensions in an orderly and amicable fashion.

12. The above examples illustrate the manner in which inter-governmental co-operation through organized procedures can assist the process of industrialization at its various stages in Africa, given that generally speaking the prospects of such industrialization are bound up with multi-national co-operation.

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